

## Ithaca 2018 Abstract Submission

### Title

The current wine market position of China and its future

### I want to submit an abstract for:

Conference Presentation

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### Keywords

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### Research Question

An insight to the wine business development in the past 20 years and why the Chinese wine businesses should re-position themselves to focus to consumer-centric business (knowledge and cultural basis)

### Methods

Through education, wine knowledge popularization to general wine consuming groups and business leaders who would have stronger influence on the wine consuming behavior.

### Results

Rational and knowledgeable consumption which rebuild a healthy and sustainable wine market.

### Abstract

Background

Chinese economy has been booming for 40 years since 1978 (the Open Policy after the 10 years disastrous Cultural Revolution ended in 1976). And the wine business jumped in this bandwagon starting the early 90s. However, China now, being the 5th largest wine market in the world, is operated under a total different business model to its international counterparts.

Although the track record of wine business in China has a history over a hundred years (the first industrialized wine production dated back to 1892 by Changyu Wine in Yantai, Shandong Province) in the contemporary Chinese history, the popularity of wine consumption and the booming of wine business actually commenced in the 21st century after China entered to join World Trade Organization in 2001.

Before entering the 21st century, China had only a limited number of wine producers and wine importers who are nowadays all play important roles and contribute to the wine business growth in China.

Since the admission to WTO, China's wine business started to grow tremendously in a drastic pace accompanying her economic accomplishments. Wine was regarded as a fashionable, classy alcoholic drink among the elite and upper-class business functions and communities (this perception and understanding still dominate and being a major driving force to generate the new wine consuming groups).

At the beginning, the operation of an imported wine business in China was challenging, it happened that, if it was not carefully managed, the operator would commit to fall into the legal trap (mainly related to the import and tax issues) and been penalized to fine (and even jailed).

The price of wine was high in respect to the GDP per capita in those years (an easier approach to understand: a month wage equals 2 bottles of imported wine). While starting 2005, custom duty of imported wine was adjusted from 43% to 14% (bottled wine) and 20% (bulk wine) respectively, this created a new era and generated huge business opportunities to many new wine businesses. Most, if not all, these newly-entrant players made huge profit and were successful in the early years. As the big margin attracted more and more opportunists to enter to share a piece of the pie, the wine business competition became more and more competitive.

Except to a few large-scale state-enterprises who have the resources in terms of market power, geographic coverage and distribution channels, most of the other wine businesses are worked only on regional basis. It was either the foreign wineries who entered to exhibit in wine fairs in China, or those Chinese wine merchants who were facilitated with a better knowledge to wine and the market, who contacted and visited those wineries and to introduce their wine products into China. The sale structure is always distributed through multiple-levels of distribution channels to distributors, sub-distributors, and sub-sub ... etc.

From 2005 to 2013, it was the golden period of imported wine market. The business relied on “guanxi” (connections and relationships) more than the product itself, thus making enterprise-gifting a major spending segment in overall wine business (rather than the international norm in on-trade and off-trade activities). It built an ecosystem that wine was used to connect and liaise for business (instead of the flavor and quality of the product itself). The more expensive of a wine one would deliver (as a gift or on a dining table), the more respect one shown to the receiving parties. This caused eventually an irrational pricing of imported wine (might not be necessarily associate/reflect to the real international market prices) and thus corruption and also faked and counterfeited wines in the marketplace where consumers had less means to protect their interest.

And in 2013 after President Xi Jin Ping who took over the Chair and started the surveillance on controlling and monitoring the irrational public spending and an anti-corruption campaign, the once high-pricing dining and wine consumption was heavily hit which caused the fall of wine import in 2014 (the first time ever in the Chinese wine business history). Many wine businesses who couldn't adjusted accordingly and those who were too small to the change (one single business model through relationship) was forced gone out of the business.

Also with the popularity use of internet technology, Chinese consumers are accessing through many different information channels to know the international market prices (real value) to many imported wines, which caused the wine business could no longer make as much as high profit margin and put whatever price tags they wanted as they did before. With the introduction of very cheap wines from Spain (and later extended to Chilean wines), private label (or OEM) wine was getting more and more popular which contributes the advantages to importers on non-transparent pricing information (one could no way to search and find out through internet what the price of this private-label wine) and still contribute them a huge profit margin (the low cost does not necessary mean the sale price needed to be low, this helped the wine businesses still making high profit margin and selling more because of the lower price-tags in comparison to the old days before 2013). For information, a private label Spanish wine could be as low as to one Euro or less (or US\$1.20) per 750ml size bottle.

These strange and unreasonable phenomenon (unfair trade pricing and low quality cheap wine), plus the less knowledge (in both wine and language) and rare trust information platform or sources that they could refer, cause the Chinese wine consumers more hesitated on wine consumption.

## ACTIONS

A committed, long-term hardship to work towards to the wine consumers on delivering the knowledge, the culture and a liaison of wine producers to the consumers would help to restore the wine business and rebuild the trust and confidence of consumers on wine consumption.